LongRun Swiss Small & Mid Cap Fund

QUARTERLY LETTER

Advertising communication

APRIL 2025

Investment philosophy

"Make things as simple as possible, but not simpler" – Albert Einstein

Welcome to the sixth LongRun Swiss Small and Mid-Cap fund letter. We kept the structure of previous editions which includes three sections: A description of our investment philosophy followed by a review of the quarter and finally an investment discussion such as a company case study. The section on our investment philosophy will not change in content but we may from time-to-time sharpen the wording. The review of the quarter covers performance and portfolio changes. The investment discussion focuses on a different topic each time, we will review the largest holdings first before we tackle other topics. Feel free to skip to whichever section interests you most.

Our aim is to invest in a concentrated portfolio of high quality Swiss small and mid-cap businesses and hold these for the long-term. Put differently, we simply want the best. More detail on our investment philosophy below.

Long-term business owners

We want to own high-quality businesses which will be around and prospering for decades. Hence, we pay little attention to short-term price moves and rather focus on a business's sustainable competitive position. This means we search for companies with enduring superior business models that can compound their earnings. Consequently, we avoid companies in commoditized industries where price is the main differentiator. We seek solid companies in control of their own destiny, immune to external prices swings. A key metric is often management's allocation of capital as if it were their own, with a dedicated emphasis on achieving sustainable superior returns.

We care about valuation but are not dogmatic about it. If a great business continues to prosper, we are convinced that its share price will eventually follow. Furthermore, an obsessive focus on valuation often fails to identify truly exceptional businesses. We are determined to avoid this mistake.

Warren Buffett's advice "It's far better to buy a wonderful business at a fair price than a fair business at a wonderful price" is gospel to us. We are long-term business owners, which, in essence, implies that we envision acquiring a business and happily owning it for decades, if not longer.

Deep research on few companies only

As follows from the previous section, we do not continuously screen our investment universe for "cheap" companies nor do we buy and sell based on short-term price changes. Instead, we leave this to machines which go through publicly available data to identify and exploit perceived arbitrage opportunities.

Our research process is thorough. Once we consider buying a company, we invest a lot of time reading its annual reports, conducting expert calls, talking to management and constructing our own financial models. We also read books on companies and their leaders, industry newsletters and listen to podcasts. In short, we leave no stone unturned to better understand a business.

We prefer to analyse and own fewer companies, ensuring a deeper understanding. To us, this deep understanding of business models is absolutely necessary even if it is no guarantee for superior long-term performance.

Wealth preserving portfolio

Avoiding permanent capital loss is essential to long-term investment success. Consequently, we conduct deeper research on fewer companies. Also, it's an ongoing process, never truly finalized. We always strive to learn more and assess whether a business will be around and prospering decades from now, considering environmental, social or governance risks. Only companies of high quality, firmly in control of their own destiny, make the cut.

Our approach stands in stark contrast to benchmark-relative investing, where the allocation to each company is determined by the benchmark. In this method, any particular company then receives a higher or lower or even no allocation depending on a portfolio manger's view. This frequently results in a portfolio with - we would claim - too many positions. To us, the benchmark serves as a yardstick only, and when looking at its constituents, we select simply the best.[1] That is why our portfolio's deviation from the benchmark as measured by the active share commonly exceed 65%.

On a portfolio level, our selection of businesses is complementary, as they serve different end markets across various geographies, generating revenues in multiple currencies. To us, this represents true diversification. We are cautious about merely adding more businesses to achieve diversification by quantity. This results in a robust portfolio.

A robust portfolio is also what then allows us to compound returns over the long-term. Just like we expect our businesses to compound their earnings, we also want to compound our clients' wealth.

[1] The SPI Extra defines the strategy's investment universe and is used as the benchmark. Up to a total of 15% can be invested outside of this universe for two reasons: To maintain an existing investment despite benchmark composition changes or to make an investment complementary to the overall portfolio.

Portfolio review

A look at performance and changes over the quarter

Performance

The fund lost -3.5% over the first quarter 2025. In comparison, the SPI Extra, serving as the fund's yardstick, gained +3.1%. Annualised returns since the strategy's inception some four years ago are +4.6% for the strategy and +3.4% for the benchmark. This results in an annualised outperformance of +1.2%.

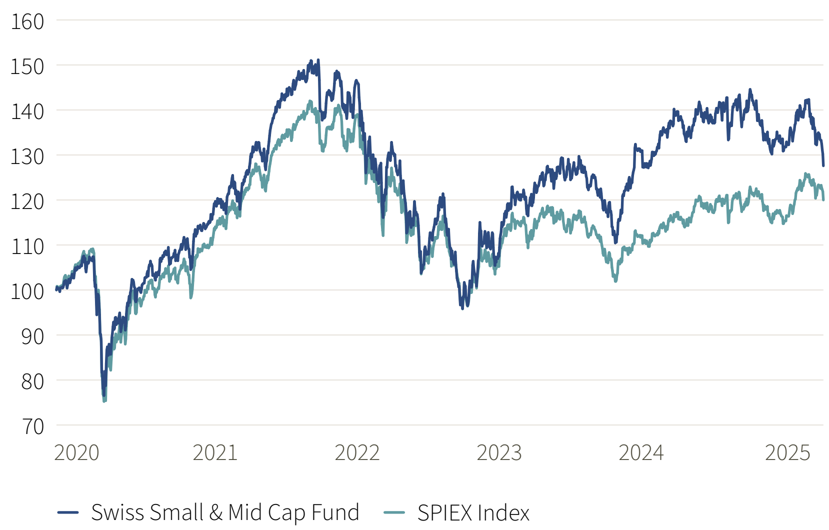
Only 5 of the 19 companies in our portfolio contributed positively. This was mainly due to the market beginning to favour lower-priced, cyclical companies likely to benefit from German stimulus measures. These are not the companies we commonly prefer. Positive contributors were Lindt & Sprüngli (+18.6% share price change over the quarter), Schindler (+11.7%) and Interroll (+4.8%). Detractors were similar to the previous quarter, namely Tecan (-17.7%), Inficon (-11.0%) and VAT (-8.2%). We discuss these in turn.

Lindt & Sprüngli achieved organic sales growth of +8% in 2024 with +2% from volume and +6% from price. This fits with the long-term picture: Over the past 10 years sales increased +7% organically, with +3% from volume and +4% from price.[2] The company's premium positioning is key to its positive pricing. For 2025, the company expects organic sales growth of +8% which is ahead of its long-term target. With a leading premium product portfolio and a diversified global presence, Lindt remains well-positioned for sustained mid-single-digit growth, even amidst macroeconomic challenges.

The elevator maker Schindler ended 2024 approximately in-line with estimates growing sales by +2% organically. Schindler's sales come from three main segments: new installations (approximately 40% of sales, with 5–10% margins), servicing the installed base (45%, with margins over 20%), and modernization (15%, with slightly higher margins than new installations.[3] Despite a more cautious 2025 outlook for new installations, particularly in China, the service business should do well and Schindler's cost optimisation is beginning to pay off. For instance, the company has worked through its negative margin new installation backlog and successfully rolled-out its new standardised platform. With a continued focus on the service business, margins should improve – from 11% in 2024 to 13% in 2027 and more thereafter. This is partially reflected in Schindler's recent share price performance.

Interroll is a leading provider of material handling solutions, offering rollers, motors, and automated conveyors. For

FIGURE 1: PERFORMANCE (%)[4]



	Fund	Benchmark	Difference
2025	-3.5	3.1	-6.6
2024	1.0	3.8	-2.8
2023	21.9	6.5	15.4
2022	-26.6	-24.0	-2.6
2021	22.9	22.2	0.7
2020	14.1	8.1	6.0
2019	4.4	4.9	-0.5
Cumulative return	27.6	20.0	7.6
Annualised return	4.6	3.4	1.2

[2] The fastidious reader may notice that in our Q4-24 case study on Lindt & Sprüngli, these numbers were reversed. This is due to exceptional pricing in 2024 and rounding of numbers.

[3] The case studies of our Q2-24 and Q3-24 letters provide more insights to Schindler and the elevator industry.

[4] Performance based on a certificate from its inception on 2019-11-06 until the fund's inception on 2023-06-11 and the fund's performance thereafter.

example, when you order a package online, Interroll's solutions help it travel smoothly through the logistics centre to reach your doorstep faster. Most of the time, the company doesn't sell its products directly to end users like warehouses or airports. Instead, it works with system integrators who design and build complete systems using parts from different suppliers. Interroll's 2024 results were underwhelming, but management noted growing interest from system integrators, a filling order book and the appointment of a new CEO — all signs that suggest potential for a stronger 2025. The share price followed suit over the first quarter. Since then, economic uncertainty increased meaning orders may be delayed. Since it takes 6-9 months for orders to turn into sales the company recently turned more cautious regarding its 2025 outlook. Yet, long-term demand is driven by the need for productivity increases and labour shortages. This should be promising for Interroll.

Tecan is a medical equipment maker offering lab automation solutions and contract manufacturing. Its automation products are used by researchers for drug discovery and by practitioners for clinical diagnosis. Generally, automation saves time and improves reliability. Its latest platform, Veya is designed for smaller laboratories and was positively received but is not yet available for sale. Current key challenges include reduced research budgets in the US, economic softness in China, and slower progress in strategic partnerships. Despite these headwinds, the company's commitment to innovation and a strong installed base provides a foundation for future growth.

Two detractors were, again, semiconductor-related companies, namely Inficon and VAT. We have explained the industry dynamics before in this section. In short, the semiconductor industry is cyclical. Global semiconductor sales were USD 628 billion in 2024 which is forecasted to grow by around +10% per year to exceed USD 1 trillion by 2030. Thus, the long-term forecast remains intact and has not changed. Semiconductors are used across several end markets and over the past year only one benefited from robust demand growth, namely servers, datacentres & storage. The reason was large investments into AI infrastructure. Most other end markets are more linked to GDP or personal consumption (i.e. autos, industrial, consumer electronics, smartphones). Furthermore, the semiconductor industry and its supply chain are truly globalised. Therefore, any threat of tariffs may have a direct effect on the industry's supply chain and an indirect effect on demand by potentially decreasing global GDP and personal consumption. The heightened uncertainty caused share prices of semiconductor companies to decline, including the ones we own. Yet, both companies are market and technology leaders in their niche, and we remain convinced that their revenue and profit will increase over the long term and share prices should eventually follow. We discuss Inficon in the last section of this letter.

Activity

The first quarter saw no changes to portfolio constituents and only small changes to individual weights. This is in-line with our long-term investment philosophy. However, due to increased share price volatility we are examining several potential changes which should improve our portfolio.

Result

Our portfolio comprises high quality businesses as evident from the financial metrics: Cross-cycle sales growth of 8%, an operating margin of 20%, an operating return on invested capital of 24%, a net debt to EBITDA leverage ratio of 0.0x, and a strong cash conversion of 83%. We consider the current valuation attractive, with the portfolio offering a free cash flow yield of 3.3%, slightly ahead of the benchmark's 3.2%.

Examining the invisible

The heading is neither contradictory nor absurd, so read on

As usual, in this section we focus on a single investment. We do this because we select businesses purely based on a fundamental approach and want to share our insights. This time we take a closer look at analysing the invisible, or as Inficon's former CEO and current board member, Lukas Winkler, once quipped at an analyst presentation "we are very good at measuring nothing".

More concretely, the company is a leader in measuring, analysing and controlling pressure and gases. This is essential in high-tech manufacturing such as semiconductors which must take place in a controlled and clean environment, often assured by a vacuum. We have written about vacuum in semiconductor manufacturing before in Q1-24. Back then, we stated that the Swiss Rhine Valley, unlike the Silicon Valley, as a geography was unlikely to be associated with high-tech. We may have been wrong as Inficon is headquartered there, too.

From the past to the present

Before looking at products, markets and competition, we outline the genesis of the company. Inficon is the combination of vacuum activities of three international companies, namely Inficon, Leybold and Balzers. In 1969, alumni from Syracuse University and General Electric in the U.S. developed a leak detector and founded Instruments for Intelligent Control (Inficon). Seven years later, German Leybold acquired and introduced Inficon to vacuum technologies. In 1994 Leybold-Inficon became part of the Swiss conglomerate Oerlikon-Bührle which also owned Balzers. Balzers, named after the city, where it was founded, had the explicit goal to research and commercialise vacuum thin film coating. This allowed Oerlikon-Bührle to create the world's largest vacuum and thin-film company. Eventually, these activities were brought together under the name Inficon and the company was listed on the Swiss exchange in November 2000, just in time for the dot-com crisis.[5]

As you can imagine from this quick "tour de force" through Inficon's history the company has several businesses. Whilst we prefer single business companies, this is not to say that there aren't excellent multi-business companies – like Inficon. In its early years, Inficon lacked focus, but today, as outlined in the table below, the company has three core technological competencies (vertically) which it offers to four business segments (horizontally). The operational set-up is decentralised with each core competence at a different location.[6] We look at these first, before turning to the business segments.

TABLE: COMPETENCIES, SEGMENTS AND MARKET SHARE

Technological core competence	Price	Volume	Semi & vacuum coating	Refrigeration AirCon & Auto	General Vacuum	Security & Energy
Pressure Management	Low	High	2		1	
Leak Detection	Medium	Medium	1	1	1	1 or 2
Residual Gas Analysis	Very high	Very low	1		1	

[5] Inficon was initially dual listed on the Nasdaq and the Swiss exchange but due to insufficient liquidity delisted from the former in 2005.

[6] The three centres of technological competence are located at Inficon's predecessor companies' locations: Pressure management in Balzers (Liechtenstein) for the company of the same name, leak detection in Cologne (Germany) for Leybold and residual gas analysis in Syracuse (USA) for Inficon.

What is Inficon really good at?

Pressure management precisely controls vacuum processes which operate often only within narrow pressure windows. Inficon's pressure sensors and controllers are used in many manufacturing processes ranging from semiconductors to flat panel displays. These products are relatively cheap but sold in large volumes. Inficon holds the number two position behind MKS Instruments but is closing the gap.

Leak detection ensures product safety and reliability in many manufacturing settings. Most commonly a tracer gas pinpoints even microscopic leaks. Applications range from semiconductor fabrication plants, where the tiniest leaks can disrupt ultra-clean environments, to automotive production lines ensuring the integrity of brake systems. More recently, electric vehicle battery testing has emerged as a growth driver. Leak detectors are fairly expensive and not sold in large quantities. Inficon is the market leader and Pfeiffer Vacuum is its main competitor.

Residual gas analysis measures the composition of gases. This is integral to high-tech manufacturing such as semiconductors to detect impurities and monitor process gases. Inficon's residual gas analysers set the industry standard.[7] The devices are highly customised, big-ticket items and only sold in small numbers.

As you can infer from prices and volumes in the table above, the core competencies are similarly important to overall sales (approximately 30% for pressure management, 30-35% for leak detection and 25-30% for residual gas analysis). In the next section we look at which industries stand to benefit from these competencies or, to quote from Jerry Maguire "Show me the money".[8]

Who can benefit from what Inficon is really good at?

Semiconductor & Vacuum Coating contributes about 50% to sales, is the largest segment and also uses all core competencies.

Products are integrated directly into machines made by original equipment manufacturers (OEMs) such as ASML, Tokyo Electron and Lam Research. The sales process is long and technically demanding. Customers often engage Inficon early in their research and development (R&D) cycles, with product qualification and certification taking up to two years. Once integrated, products tend to remain in place for years, creating recurring revenue. Often, these products are customized, so performance and support outweigh price in the purchasing decision. Hence, relationships with clients are deep and long-lasting.

In general, as technology progresses, manufacturing becomes more complex and precise control becomes more important which increases the demand for various sensors. Therefore, as the market leader Inficon stands to benefit.

Furthermore, there are some vacuum gauges and leak detectors sold to semiconductor fabrication plants directly and installed in the ancillary environment to assure day-to-day operations. As these may be less customised, there may be slightly more negotiations regarding price.

Refrigeration, Air Conditioning & Automotive contributes approximately 20% to sales. In this segment, Inficon supplies handheld and automated leak detectors used for production and maintenance service. Customers include major brands such as Carrier, Samsung, Haier (for refrigeration and air conditioning), and Ford, Daimler, VW (for automotive). The sales model is a mix of integration — for example, leak detectors embedded into production quality control lines for electric vehicle battery packs — and direct sales for maintenance and service applications. Compared to semiconductors, products are less customized, but reliability still commands a premium. Inficon focuses on the higher-value professional markets, rather than consumer applications.

General Vacuum contributes approximately 25% to sales and serves a range of customers who require vacuum measurement products. Inficon's sensors are used in many industrial vacuum applications, including machinery, coatings, and R&D. Customers range from large OEMs to niche laboratories and research institutes. The product mix includes both catalogue items and semi-custom solutions, and the sales process tends to be shorter and more transactional. Yet, margins are solid, supported by brand reputation and technical support capabilities.

Security & Energy contributes approximately 5% to sales and in this segment, Inficon supplies chemical detection systems and gas analysis tools. These are used by militaries, emergency response teams and energy companies to detect hazardous chemicals and analyse gas composition in the field. Sales are often tender-based and have long lead times. Products are highly engineered, premium-priced with relatively low volumes but high margins.

In summary, Inficon serves several target markets with common technologies. As indicated by figure 2 below, semiconductor-related sales

[7] Inficon is the sole supplier to ASML's EUV programme. ASML is the world's only manufacturer of extreme ultraviolet (EUV) lithography machines which are needed to print circuitry on wafers which ultimately become the latest technology chips to power AI, smartphones and personal computers. Being the exclusive supplier to such a machine, bears testament to Inficon's technological prowess.

[8] A successful film from 1996 in which Tom Cruise plays a sports agent who after being fired starts his own firm with one loyal client and learns to value relationships over money.

have increased over the past 15 years. Today they make up the lion's share and may increase even further. Yet, this is not due to a lack of growth from the other segments which grew mid-single to low double-digits per year. Semiconductor-related sales simply grew much faster, at a mid-teens rate. The other segments are no less profitable, provide additional sales and may have a revenue smoothing effect due to their differing cycles. Clearly, Inficon has been successful across its segments. In the next section we look at how the company can maintain and improve its position.

How to stay two steps ahead?

There is no single direct competitor to Inficon as the overlap is partial at best. For instance, MKS Instruments has completed many acquisitions and is a diversified semiconductor supply conglomerate. Inficon, by contrast, remains laser focussed on instrumentation and is successful, we argue, as it holds the number one or two market share in each chosen niche.

Over the past 10 years Inficon spent around 8% of sales on R&D. This amounts to far more than competitors' spent on the same technological competences. Thus, it makes sense that over time Inficon became the technology and market leader.

An important innovation were ceramic sensors, launched around 2010. These are more robust than metal alloy sensors and more suitable for high-temperature and corrosive processes sometimes employed in semiconductor manufacturing. More recently, the roll out of semiconductor software platforms bear promise. These help with production planning (FabTime) and process improvements (FabGuard). Software is often a subscription service and has very healthy margins. The offering is currently around 5% of sales but is growing double digits.

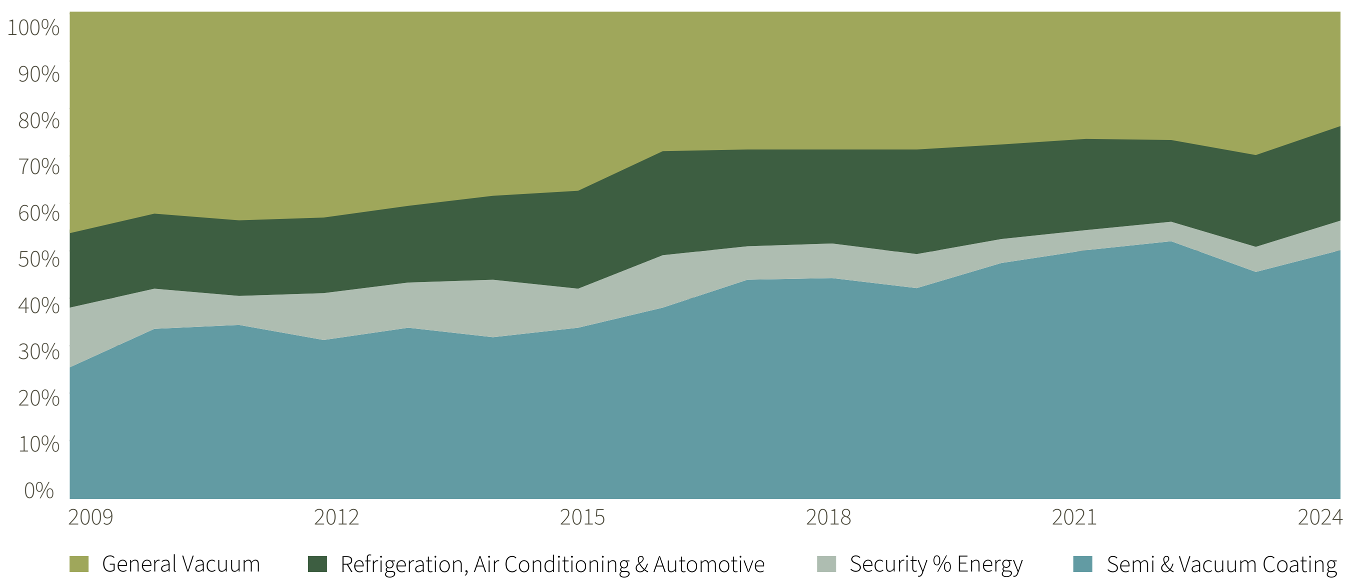
The sales process for Inficon's offering is technical and purchasing decisions are rational. Also, the products are mission critical but mostly make up a small share of total cost. Hence, the best solution and not the cheapest wins. This holds true even for the pricier leak detectors and residual gas analysers. For instance, a high-tech residual gas analyser costs USD 100'000 or more, yet this is less than 1% of the manufacturing cost of an EUV semiconductor manufacturing machine sold for USD 200 million and more.[9] Clearly, this is a small share of total cost.

Nevertheless, good relationships never hurt. Whenever, Inficon's service engineers work closely with customers, they can suggest new solutions to win additional business. Also, joint developments with semiconductor OEMs begin years ahead of a product launch with engineers from both sides working together.

The company regularly reviews its product catalogue, discontinuing legacy items to shift customers toward more advanced, higher-margin solutions. This assures appropriate pricing. None of Inficon's customers is more than 5% of sales and the largest ten customers make up about 25% of sales. Therefore, bargaining power of customers is no big concern and Inficon has some pricing power.

The global set-up is decentralised, with R&D and manufacturing concentrated at the three core technology competence locations — Syracuse (USA) for gas analysis, Cologne (Germany) for leak detection, and Balzers (Liechtenstein) for pressure measurement. This structure adds focus. Additional manufacturing is carried out at the newly opened facility in Perak, Malaysia, which for now primarily produces white-label handheld leak detectors, and in Changzhou, China, which serves

FIGURE 2: SEGMENT REPORTING



[9] ASML's low NA EUV machines have an average sales price of USD 200 million at a gross margin of more than 50%. Hence the total bill of materials including direct labour is USD 80 to 100 million. Even at USD 0.5 million for a residual gas analyser this would be less than 1% of total cost.

the local market. Funnily, depending on pronunciation, “InFuCon” could mean inner prosperity and fortune in Mandarin and the company is often perceived as a local supplier in China. Inficon also maintains 18 global service locations with around 150 service and application engineers, supporting customers across all major manufacturing hubs.

Local presence and production help navigate trade restrictions, meet export controls, and align with local content requirements. This could help with Chinese requirements to source locally and potentially help to adjust to changing tariffs.

Inficon follows an asset-light model and outsources over 85% of manufacturing. Internal operations concentrate on final assembly, calibration, and quality assurance, whilst keeping select core technologies in-house, including ceramic sensors and custom gas analysis tools. This approach enables operational flexibility, protects intellectual property, and keeps capital intensity low.

Inficon’s capital allocation strategy prioritises growth above shareholder returns. Expansion has been almost exclusively financed through internally generated cash flow. Inficon remains nearly debt-free and maintains a net cash position. Dividend payout has ranged from 50% to 90% of net income but is explicitly optional when no better internal or external growth opportunities exist. Whilst internal growth is preferred, Inficon has completed several small, bolt-on acquisitions over the years. These include the afore-mentioned ceramic sensors and semiconductor software. The M&A process has recently been formalised. Yet, the aim remains to complement organic growth with selective deals, always focusing on strategic fit rather than scale.

Management is highly experienced, technically qualified, and remains humble. CEO Oliver Wyrsch joined Inficon in 2018 and became CEO in 2023, while CFO Matthias Tröndle joined in his current role in 2008. Notably, Inficon has no formal investor relations department, a decision we applaud as this puts business performance above everything else.

We forecast Inficon’s sales growth ahead of its industry (in the high-single digits) for years to come and expect profitability to improve slightly from its current low-twenties due to a continued shift to higher margin activities. Inficon’s valuation looks attractive, trading at a one-year forward earnings multiple below 20x whilst we consider around 25x as fair. We mention the multiple here for illustrative purposes only and note that by itself it is insufficient to draw firm conclusions.

To conclude, Inficon is supplying technology and market leading solutions to the semiconductor industry. Additional sales to other industries are a positive as they rely on the same technologies and provide some insulation from changes in semiconductor demand. Therefore, we expect that Inficon will flourish in years from now taking further market share due to its innovation and niche focus – good prospects for a company looking at nothing.

Business owner's portfolio

A deeper look into the strategy and its companies

SALES BY BUSINESS (%)

Materials	7
Machinery	23
Other cap goods	9
Transportation	7
Semiconductors	12
Health care	17
Food	10
Real estate	1
AM	5
Other	8

Based on internal analysis.

By weight in portfolio, excluding cash.

DEGREE OF PRICING POWER* (%)

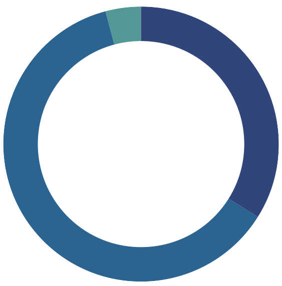
Medium	30
Low	62
None	9

*In the investable universe, approximately 5% of companies have medium or high pricing power.

Based on internal analysis.

By weight in portfolio, excluding cash.

STRENGTH OF COMPETITIVE ADVANTAGE (%)



High	34
Medium	62
Low	4

Based on internal analysis.

By weight in portfolio, excluding cash.

STRENGTH OF SWITCHING COSTS (%)

High	50
Medium	40
None	10

Based on internal analysis.

By weight in portfolio, excluding cash.

ESG RATING BREAKDOWN (%)

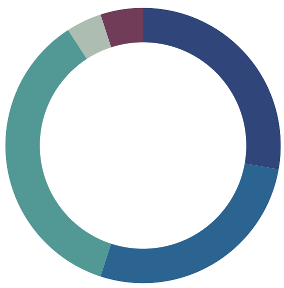
AAA	31
AA	19
A	36
BBB	14

The ESG rating summarizes the ESG performance of a company across environmental, social and governance topics compared to its industry peers.

Data retrieved from MSCI ESG Research LLC.

By weight in portfolio, excluding cash.

IMPLIED TEMPERATURE RISE BREAKDOWN (%)



1.5°C Aligned	28
2.0°C Aligned	27
Misaligned	36
Strongly misaligned	4
Not rated	5

Implied Temperature Rise (ITR) shows the alignment of companies with global temperature goals. This represents the global warming amount if everyone replicated the measured company's practices. Categories range from less than or equal to 1.5°C Aligned to more than 3.2°C Strongly Misaligned. Data retrieved from MSCI ESG Research LLC.

By weight in portfolio, excluding cash.

Notes

At Rothschild & Co Wealth Management we offer an objective long-term perspective on investing, structuring and safeguarding assets, to preserve and grow our clients' wealth.

We provide a comprehensive range of services to some of the world's wealthiest and most successful families, entrepreneurs, foundations and charities.

In an environment where short-term thinking often dominates, our long-term perspective sets us apart. We believe preservation first is the right approach to managing wealth.

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Values: all data as at 31 April 2025.

Sources of charts and tables: Rothschild & Co and Bloomberg, unless otherwise stated.

Past performance is not indicative of future performance and investments and the income from them can fall as well as rise. Strategy performance is shown in EUR, after all fees, in total return, combining income and capital growth. Returns may increase or decrease as a result of currency fluctuations. Please note the strategy's new management started on 01.08.2021

Important information